

# **Carlisle Companies Incorporated, Q1 2021 Earnings Call, Apr 22, 2021**

Carlisle Companies Incorporated (NYSE:CSL)

CALL PARTICIPANTS: 3

PRESENTATION: 5

QUESTION AND ANSWER: 60

# Call Participants

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## EXECUTIVES

**D. Christian Koch**

Chairman, President & CEO

**James Giannakouros**

VP of Investor Relations and FP&A

**Robert M. Roche**

VP & CFO

## ANALYSTS

**Bryan Francis Blair**

Director & Senior Analyst

**Garik Simha Shmois**

Managing Director

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Kevin William Hovevar**

VP & Equity Research Analyst

**Saree Emily Boroditsky**

Equity Analyst

**Timothy Ronald Wojs**

Senior Research Analyst

# Presentation

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## Operator

Good afternoon. My name is Kavita, and I'll be your operator today. At this time, I would welcome everyone to the Carlisle Companies First Quarter 2021 Earnings Conference call. [Operator Instructions]

I would now like to turn the call over to Mr. Jim Giannakouros, Vice President of Investor Relations. Jim, please go ahead.

## James Giannakouros

VP of Investor Relations and FP&A

Thank you, Kavita. Good afternoon, everyone, and welcome to Carlisle's First Quarter 2021 Earnings Conference Call. We released our first quarter financial results after the market close today. And you can find both our press release and earnings call slide presentation in the Investor Relations section of our website, [carlisle.com](http://carlisle.com).

On the call with me today are Chris Koch, Chairman, President and Chief Executive Officer; and Bob Roche, our Chief Financial Officer. Today's call will begin with Chris discussing business trends experienced during the first quarter of 2021, views of what's to come in context around our progress toward and unwavering commitment to achieving Vision 2025. Bob will discuss the financial details of Carlisle's first quarter performance and current financial position. Following Chris and Bob's remarks, we will open the line up for questions.

Before we begin, please refer to Slide 2 of our presentation where we note that comments made on this call may include forward-looking statements based on current expectations of future events and their potential effect on Carlisle's operating and financial performance that involve risks and uncertainties which could cause actual results to be materially different. A discussion of some of these risks and uncertainties are provided in our press release and in our SEC filings on Forms 10-K and 10-Q. Those considering investing in Carlisle should read these statements carefully and review reports we file with the SEC before making an investment decision.

Today's presentation also contains certain non-GAAP financial measures. We provided reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financials in our press release and in the appendix of our presentation materials. And we also have historicals provided in supplemental tables, which are available on our website.

With that, I introduce Chris Koch, Chairman, President and CEO of Carlisle.

**D. Christian Koch**

Chairman, President & CEO

Thanks, Jim. Good afternoon. I'd like to welcome everyone to our first quarter 2021 earnings call. I hope all of you, your families, coworkers and friends are staying safe and healthy as we collectively manage through what is hopefully the beginning of the end of the COVID-19 pandemic.

Reflecting on the last 12 months of uncertainty. I take great pride in how roughly 1 year ago, the Carlisle team handled the immediate threats borne out of the pandemic. Our first actions were to ensure our teams at Carlisle were taking the steps necessary to provide a safe work environment. We ensured that our team members had access to health care, continued to be paid and had company support for the difficult situations many were facing. We enacted strict health and safety protocols based on the CDC, World Health Organization and best-in-class peer actions and recommendations, which contributed to a low infection rate at Carlisle across the globe.

Our next steps were to support our highly engaged and flexible workforce as they took very proactive measures to ensure we supported our customers that were providing essential services to the economy. We wanted to ensure that they could count on Carlisle to be there to provide the right product to the right place at the right time, or what we've come to call the Carlisle Experience.

Turning to Slide 3 now. Throughout 2020, an essential part of leadership's job was to cut through the confusion, misinformation and complexity present in our daily lives and communicate a clear, direct and simple strategic vision for the organization that would inform our priorities, educate our collective mission and guide our everyday actions at work. At Carlisle, we call this Vision 2025. And this compelling strategic framework gave us clear direction and consistency of mission during the tumultuous past year and will continue to guide our efforts as we accelerate into the recovery in 2021.

During the past 12 months, Carlisle again proved its ability to navigate varying economic cycles with steadiness and focus while delivering strong financial performance, reconfirming our conviction in Vision 2025 and its key strategies. The first quarter of 2021 continuous to validate the hard work, effort and commitment by all Carlisle employees to our stakeholders and signals that operational momentum is building across our platforms.

Moving on Slide 4. Due to the strength in our CCM, CFT and CBF businesses, our revenue was flat year-over-year despite a very tough comparison to quarter 1 of 2020. The well-understood impact of the COVID-19 pandemic on the commercial aerospace markets continued to weigh on CIT results, and it had a significant negative impact on the first quarter of this year.

More than offsetting this was outstanding performance at CCM where our team

delivered 6.3% year-over-year revenue growth, a tremendous achievement when considering the first quarter of 2020 was 1% higher than 2019 and Q1 of '19 was 12% higher than 2018. Additionally, we are encouraged by CBF's rebound from a multiyear sector decline in demand for off-highway vehicles. And lastly, CFT continues to build on its second half 2020 performance. And we're encouraged with CFT's global end market strengthening.

Our strong results and rapid recovery from the initial shock of the early stages of the pandemic reinforce our confidence in the Carlisle team's ability to achieve Vision 2025. The first quarter results highlight how we continued to execute on our long-term strategies, including maintaining the highest standards and providing the Carlisle experience to our customers, investing in high-return capital projects to drive organic growth across our core platforms, working an active pipeline of acquisition targets, returning excess capital to shareholders through share repurchases and dividends, continuing on our ESG journey, and demonstrating exceptional -- both exceptional, excuse me, and sustainable earnings power of the Carlisle business model. It's our history of innovation, investment and continuous improvement that supports more conviction than ever in Carlisle's future success.

Turn to Slide 5, please. The first quarter of 2021 continued to demonstrate the strength of the CCM franchise and reaffirms our commitment to reinvesting in this, our highest returning business. Our pivot to CCM that began with the introduction of Vision 2025 several years ago was to us an obvious strategic choice after more than 2 decades of exceptional returns on capital, strong organic growth and solid financial performance. This is further bolstered by the now well-understood value of the Carlisle Experience.

By the Carlisle Experience, we mean ensuring delivery of the right product at the right place at the right time. We mean industry-leading investment in production facilities and R&D capabilities; best-in-class education for channel partners on the latest roofing products and insulation best practices; an award-winning customer service team; continuing to innovate and provide value-added products that ensure quicker, easier and safer installation of our building envelope systems and solutions in an increasingly labor and material constrained-environment; and finally maybe most importantly, contributing products that provide a better environment for all stakeholders. Taken in whole, the Carlisle Experience is how CCM has become a manufacturing, engineering and commercial leader in the construction products industry.

Further evidence of our commitment to the Carlisle Experience into investing in our highest returning business. Earlier this week, Carlisle announced plans to invest more than \$60 million to build an innovative state-of-the-art manufacturing facility in Sikeston, Missouri. This investment will support our organic growth initiatives and also create jobs for the city of Sikeston and surrounding communities. The building and its surrounding footprint will incorporate the latest advances in LEED building technologies and highest

standards of sustainability.

The insulation materials manufactured here not only lower energy costs for building owners and operators, but also help reduce a building's GHG emissions. Additionally, the site's central location will reduce the carbon footprint of CCM supply chain and improve material lead times for customers in the region. Demand continues to grow for our insulation solutions, given the strong reroofing cycle underway in the U.S. as well as the growing needs to improve the energy performance of commercial buildings. With that in mind, we felt this was the right time to expand our capacity and enhance the Carlisle experience for our customers in the Midwest.

Please turn now to Slide 6. Now let's turn to some specifics on our first quarter results where CCM exhibited the remarkable strength of its business model. CCM organic sales grew nearly 6% year-over-year, reflecting strong demand for our sustainable building envelope solutions and underscoring the importance of the Carlisle Experience. March volumes were particularly strong, more than offsetting significant weather-induced softness in February. And additionally, bookings entering the second quarter are at record levels.

Fortunately, our conviction in a strong 2021 meant that we anticipated the market needs and drove elevated production levels during the latter part of 2020 and into the winter months, as others in the industry cast out on underlying demand. We did this as a commitment to our customers to ensure their needs would be met and continue to earn our place as a supplier of choice for their building envelope solutions.

CCM continues to benefit from the strong reroofing cycle in the United States. Our products and solutions for nonresidential buildings are nondiscretionary and can only be deferred for so long. We believe CCM volumes in 2021 should benefit from work postponed in 2020 due to the pandemic, while we maintain our conviction in the sustainability of the reroofing demand in the U.S. where we continue to expect the market to grow from \$6 billion to \$8 billion in the next decade.

Additionally, CCM is meeting head on the challenges from the significant acceleration of raw material and logistics cost inflation during the quarter. Coming into the year, we were expecting an inflationary environment coupled with strong demand, and thus had prioritized selling price increases across most product categories at CCM to ensure we could continue to invest in and provide world-class customer service to our customers. Our procurement and supply chain teams are doing a great job in navigating a volatile and extremely tight marketplace, again with the goal of providing the best-in-class Carlisle Experience to our customers.

Turning to CIT, the first quarter results were in line with subdued expectations given the ongoing disruption in the commercial aerospace market. Improving

leading indicators, which include the expanding vaccine rollout, increasing numbers of domestic travelers, growing aircraft manufacturer backlogs and improvements in CIT's order books, give us confidence that CIT is positioned for sequential improvement going forward. CFT delivered improved revenue and profitability performance in the first quarter, driven by its reenergized commitment to new product innovation, improved operational efficiencies, price discipline and integration of our newer platforms. We are especially pleased that new products accounted for over half of the volume growth in this quarter.

While at CBF, the significant actions taken to improve the business over the past few years are yielding expected results. Combined with demand for off-highway vehicles and equipment, especially in ag and construction, is driving very strong volumes. CBF is delivering positive and accelerated earnings growth in what looks to be a significant inflection year for this business.

Please turn to Slide 7. Our ESG efforts also continue to gain momentum under Dave Smith, our recently appointed Vice President of Sustainability. In early April, we published our 2020 Sustainability Report in conjunction with the launch of a new award-winning ESG-focused website. These launches collectively share details of Carlisle's century-long journey and provide a deeper look into the socially responsible approach we undertake to create value for all stakeholders of the company. I'd invite you to read what we have published on the sustainability section of our website at [carlisle.com](http://carlisle.com).

I'd also like to highlight how important the Carlisle operating system was to Carlisle throughout the past year and will continue to be as we drive to deliver Vision 2025. During the pandemic year of 2020 and the 13th year of our COS journey, our teams lean heavily on COS to navigate through significant uncertainty. The first quarter again demonstrated the value of COS as we delivered 1.2% savings as a percent of sales, well within our target of 1% to 2% annually.

Moving to Slide 8. Before Bob updates you on our financial performance, I wanted to give you a quick update on capital deployment. We continue to seek synergistic acquisitions and are currently working a robust pipeline. As has been the case for the last 4 years, we remained active on share repurchases, buying back \$150 million during the first quarter, and we paid \$28 million worth of dividends. We remain opportunistic in share repurchases, and we'll continue to balance our cash position with the opportunities within the robust M&A pipeline.

We believe the strong performance in the first quarter across all platforms of Carlisle is a product of staying the course on our strategies. I'm proud of how the team met the challenges in the past year and believe Carlisle is in a solid position to accelerate through the recovery.

Bob will now provide operational and financial detail about the first quarter and review our balance sheet and cash flow. Bob?

## **Robert M. Roche**

VP & CFO

Thanks, Chris. Starting with this quarterly call when referencing profitability, I'll be speaking to adjusted EBITDA margins and adjusted earnings. Please now turn to the revenue bridge on Slide 9 of the presentation. Revenue was flat in the first quarter, driven by CCM, CFT and CBF, offset by the well-documented commercial aerospace declines at CIT. Organic revenue declined 1.4%. CCM, CFT and CBF all delivered greater than 5% organic growth in the quarter. Acquisitions contributed 0.4% of sales growth for the quarter, and FX was a 90 basis point tailwind.

Turning to our adjusted EBITDA margin bridge on Slide 10. Q1 adjusted EBITDA margin declined 180 basis points to 14.4%. Pricing and volume headwinds combined for a 150 basis point decline, driven by CIT. Acquisitions were a 10 basis point headwind. Freight, labor, raw material and other operating costs netted to a 140 basis point decline. COS benefits added 120 basis points.

On Slide 11, we have provided an adjusted EPS bridge where you can see the first quarter adjusted EPS was \$1.47, which compares to \$1.67 last year. Volume, price and mix combined were a \$0.24 year-over-year decline. Raw material, freight and labor costs were a \$0.25 headwind. Interest and tax together were a \$0.01 headwind. Partially offsetting the decline, share repurchase contributed 5%. COS contributed \$0.16, and lower OpEx was a \$0.09 benefit year-over-year. While COVID-related volumes declines at CIT clearly represented the most significant headwind during the quarter, our CIT team did a commendable job managing costs, leveraging COS through improved efficiencies and taking actions to position Carlisle for recovery while mitigating the pandemic's impact on earnings.

Now please turn to Slide 12 to review the first quarter performance by segment in more detail. At CCM, the team again delivered outstanding results with revenues increasing 6.3% driven by volume and 60 basis points of foreign currency translation tailwind. CCM continued to exhibit its resilience with solid U.S. commercial roofing performance despite continued COVID-related restrictions in some areas and severe weather in February. Our European and architectural metals teams were solid contributors to the quarter's revenue performance. Adjusted EBITDA margin at CCM was 20.1% in the quarter, a 50 basis point improvement over last year driven by the higher volumes, COS savings and cost management, partially offset by wage and raw material inflation.

Please turn to Slide 13 to review CIT's results. CIT revenue declined 30.6% in the first quarter. As has been well publicized, this decline was driven by the pandemic's impact on commercial aerospace markets. While recovery in aerospace could be prolonged, we are confident that there will be a resumption of growth with the continued rollout of the COVID vaccine and airlines returning to profitability.



In our medical platform where sales were up nicely in the quarter year-over-year, we continue to expect sequential improvement from pent-up demand as the impact of COVID on hospital CapEx and postponement of elective surgeries ease. Additionally, our project pipeline is robust and our backlog is improving.

CIT's adjusted EBITDA margin declined year-over-year to 7.1%, driven by commercial aerospace, softly -- partly offset by savings from COS and lower expenses. While the actions taken by CIT in 2020 to rightsize our footprint and reduce the overall workforce were difficult, we are positioned to deliver sequentially improving performance throughout 2021.

Turning to Slide 14. CFT sales grew 12.9% year-over-year. Organic revenue improved 5.3%. Acquisitions added 4.1% in the quarter, and FX contributed 350 basis points. Stabilization in key end markets driven by an improved industrial capital spending outlook in 2021, coupled with new product introductions, pricing resolve and efforts to upgrade the customer experience positioned CFT to accelerate through the recovery. Adjusted EBITDA margins of 15.5% was a 590 basis point decline year-over-year. This decline primarily reflects an FX gain of approximately \$3 million from the previous year, partially offset by growing volume.

Turning to Slide 15. CBF's first quarter organic revenue growth was 20.4% and FX had a positive 3.7% impact, driving CBF's organic -- total growth to 24.1% in the quarter. Demand for agricultural and construction equipment was a primary contributor to the growth. Additionally, backlog continues to strengthen with bookings up 80% year-over-year. Adjusted EBITDA margins were 13.3%, a 600 basis point improvement driven by higher volumes and COS savings.

On Slide 16 and 17, we show selected balance sheet metrics. Our balance sheet remains strong. We ended the quarter with \$767 million of cash on hand and \$1 billion of availability under our revolving credit facility. We continue to approach capital deployment in a balanced and disciplined manner, investing in organic growth through capital expenditures and opportunistically repurchasing shares while also actively seeking strategic and synergistic acquisitions. Free cash flow for the quarter was \$47.6 million, a 57% improvement year-over-year.

Turning to Slide 18, you can see the outlook for 2021 and corporate items. Corporate expense is now expected to be approximately \$120 million for the year, driven by stock and incentive-based compensation along with higher medical expenses. We continue to expect depreciation and amortization expense to be approximately \$225 million. For the full year, we expect to invest in our businesses and still expect capital expenditures of \$150 million to \$175 million.

Net interest expense is still expected to be approximately \$75 million for the year. And we still expect our tax rate to be approximately 25%. Finally, we expect restructuring in 2021 to be approximately \$20 million.

And with that, I'll turn the call back over to Chris.

**D. Christian Koch**

Chairman, President & CEO

All right. Thanks, Bob. Entering the second quarter of 2021, we are very optimistic about the remainder of the year. From record backlogs at CCM to growing positive trends in CIT's aerospace markets to recovery in both CBF and CFT, coupled with excellent sourcing and price discipline, we're confident in our ability to deliver solid results for our shareholders. We'll continue to seek to deploy capital into strategic acquisitions, share repurchases and dividends.

While there are still uncertainties around the pandemic for the full year of 2021, we anticipate the following. At CCM, supported by a strong multiyear reroofing base, project deferrals that occurred in 2020, positive momentum in our newer businesses of architectural metals and polyurethanes and expansion of our European business, we now anticipate revenue growth of low double digits in 2021.

At CIT, given improving leading indicators including a vastly better COVID-19 outlook, increasing daily TSA screenings for domestic travel and improving airline financials translating into increased manufacturers' orders, CIT's financial performance has stabilized and is positioned for sequential improvement going forward. That said, we anticipate pressures remain near term. Given a very difficult year-over-year comparison in the first and second quarters, we continue to expect CIT revenue will decline in the mid- to high single-digit range in full year 2021.

At CFT, with end market strengthening, especially general industrial, and improvements in the team's execution of our key strategies, we continue to expect low double-digit growth in 2021. And at CBF, supported by strengthening demand in core markets, price resolving and growing backlog, we now expect over 30% year-over-year growth in 2021. And finally for Carlisle as a whole, we expect low double-digit growth in 2021.

In closing, I want to once again express my gratitude to our dedicated employees, their families, our business partners and all those associated with Carlisle's success. Given our 100-year history and the resilience this company has shown in times of adversity and uncertainty, we remain confident in Carlisle's outlook, our strong financial foundation, cash-generating capabilities, unwavering commitment to our Vision 2025 strategic plan and to providing products and services essential to the world's needs.

This concludes our formal comments. Kavita, we are now ready for questions.

# Question and Answer

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## Operator

[Operator Instructions] And our first question comes from Bryan Blair with Oppenheimer.

## Bryan Francis Blair

Director & Senior Analyst

## Question:

Very solid start to the year.

## D. Christian Koch

Chairman, President & CEO

## Answer:

Yes. Thanks, Bryan.

## Bryan Francis Blair

Director & Senior Analyst

## Question:

I was wondering if you could offer a little more detail on CCM volume trends through the quarter. I guess I'm most interested in what I assume was an inflection in March. Our read was that February was tough, and there was a freeze throughout a good portion of the month. January wasn't great, flat to slightly up. So that implies a very strong margin momentum into the second quarter, which is consistent with having record bookings. But curious if you could quantify that level of momentum.

## D. Christian Koch

Chairman, President & CEO

## Answer:

Yes. I think I'd view it pretty consistently with you. But I'd also say that third quarter and fourth quarter, the teams were already seeing a return to some pretty solid numbers and backlog was continuing to be quite stable and growing. And then we did say, I think in the fourth quarter call, that we came into the year with momentum and the first quarter was going to be fairly good.

And I think as we've talked about, we did anticipate a strong 2021, coming off of the tough 2020 where we had some adds that we were going to come

back, specifically in distributor stocking, for instance. And we also knew there'd be a big backlog that hadn't been addressed in 2020.

So yes, you're right. January was -- I think was good. I think it continued the trend. February was a dip, created some uncertainty out there. I think people were wondering how many days were lost off the roof. And then March did come back. And I think March just reflected, though, what we anticipated all along that 2020 was going to be a good year, that we were going to get some distributor restocking, that contractors are going to have more flexibility going out under the roof, and we were going to see momentum build. So...

**Bryan Francis Blair**

Director & Senior Analyst

**Question:**

Okay. I appreciate that color. How's your team thinking about second quarter growth for CCM? And if we work off of the [ 7 19 ] in the first quarter and think of historical seasonality, and again with record bookings going into the quarter, that implies a very significant second quarter growth versus obviously a weak comp, but nonetheless very significant growth. Anything you could quantify would be appreciated.

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Yes. I'll let Bob address it. But I think the seasonality thing, I would kind of forget that. I think it's -- again, last year was an exceptional year. And I think there are some forces that overwhelm any seasonality that might be there. But Bob, do you want to get some more specific?

**Robert M. Roche**

VP & CFO

**Answer:**

Yes, Brian, in the second quarter, we're expecting over 20% growth off a weak last year. So I think the normal bump from Q1 to Q2, we're going to see. But the year-over-year is that's going to be bigger than usual because of the weakness last year.

**Bryan Francis Blair**

Director & Senior Analyst

**Question:**

Okay. Fair enough. And then any updated thoughts you can offer on price-cost outlook? Input costs have been less than cooperative. That's well understood. You have been aggressive on price. We know there's traction there. How do you see that shaking out on a full year basis? And how should we be thinking about first versus second half dynamic?

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Yes. I'm thinking about, at least from my perspective, what we talked about at some of the other calls, which where we thought we were going to be relatively flat in 2021, that we were being -- the team was being very aggressive on price. Again, I think they anticipated what was going to happen in the year very well. I think they knew it's going to be high demand, there's going to still be labor constraints. And I think they knew this idea of having product would be important, especially in inflationary times.

So when we look at Q1 and Q2, I think for Q1, from my perspective, relatively flat on price costs. I think Q2 might be a little bit negative. And then as we roll into Q3 and 4, we turned flat and then maybe a little positive. So net-net for the year, I'm thinking flat. Bob, do you want to add anything?

**Robert M. Roche**

VP & CFO

**Answer:**

Yes. Brian, just even with what Chris said about the second quarter, we still believe I think adjusted EBITDA margins relatively flat year-on-year even with the slight pressure we may see.

**Operator**

And our next question comes from Tim Wojs with Baird.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Nice start to the year.

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Thank you.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Maybe just first question, could you just talk a little bit about kind of material availability? Maybe not for yourself, but selling, it sounds like you guys are fine. But perhaps maybe just kind of the broader industry and kind of what you're hearing around lead times, and kind of how those compare maybe relative to your own business?

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Yes, I think you're right. I think our team has done a good job of ensuring that we have supply. And things are getting tighter. We're able to, I think, keep everybody satisfied for right now.

But across the business, I think there are those who are perhaps struggling. I know on the foam side, there's been -- polyol has been tough to get. MDI, I think for some people, has been tough to get. I think even on the fasteners and steel decking has been surprisingly, I think, tough to get.

So yes I think in a broad sense, Tim, across where we're seeing, it's getting a little bit worse. And that's putting pressure, obviously, on the ability to deliver product, and I think for some folks, lead times extending. But as I said I think for us, we're keeping our customers satisfied and filled. So we'll see what happens, though, because at the demand rates, things continue like this, it's going to put even more pressure.

I do think as the year goes through, though, suppliers will have caught up. They'll have caught up to what they took out in 2020. And probably as we look at the back half of the year, things should normalize. But I think this summer is going to be interesting.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay. Okay. And then if I remember correctly, distributors really tightened up in April last year. Are you seeing that significantly loosen up? Are they kind of scrambling for inventory?

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Well, I think that some of the record bookings obviously are people who are restocking. Last year, we had that. Again, we did talk about in the second quarter. We talked about people not putting in that normal load for the year. I think now there's probably that normal load. Plus there's the backlog from last year's jobs that didn't get completed. And then we might have, I would say, some buying where people are worried about being able to deliver jobs in July and August. They want to make sure they get them priced and get them in inventory, at least have a line of sight to being able to deliver.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay. Okay, good. And then just free cash flow conversion. It looks the same, but I think it's actually off of adjusted net income now. I guess from a dollar perspective, what I guess has changed relative to before? Because I guess if you put it relative to GAAP, it'd be significantly higher. Right?

**Robert M. Roche**

VP & CFO

**Answer:**

Yes. Relative to GAAP, it was higher. The new metric that we have is on adjusted net income, Tim.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay. And I guess what changed?

**Robert M. Roche**

VP & CFO

**Answer:**

Tim, nothing's changed.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

But you had 120 on GAAP last time, and now you have 120 on adjusted in terms of conversion. Right?

**Robert M. Roche**

VP & CFO

**Answer:**

We did. We leave some room for conservatism on the preliminary call for free cash flow conversion. So the math is the same.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

I got you. Okay. Great.

**Operator**

And our next question comes from Saree Boroditsky with Jefferies.

**Saree Emily Boroditsky**

Equity Analyst

**Question:**

Typically, a positive sign when companies are increasing capacity. So maybe what's the capacity of your new facility? And how long will this capacity last before you think you're going to acquire another one?

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Well, I think we generally think that a polyiso plant adds somewhere between 5% and 10% to the capacity of the industry. And when you think that we're growing in the first quarter 6% and we think that's going to continue, I think it's just an appropriate level of capacity add. And likely, it will take a couple of years to consume that.

We've seen competitors add plants, I think, over the last 6 years. It's been one every couple of years. And that seems to have been the appropriate level of capacity to not overcapacitize the industry and then have pressure on pricing.

**Saree Emily Boroditsky**

Equity Analyst

**Question:**

And then maybe, could you talk about what you saw from an end market perspective in CFT? And do you see an acceleration through the quarter? How are orders trending? And then I believe you have a decent amount of auto



exposure there. So maybe any impact you're seeing from production issues.

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Right. So I think most of the things that -- I'll address the first one, the production issues there and capacity. When they're putting in these paint systems and sealer systems, typically it's a longer-term project with an ROIC-based investment over multiyears. And so we haven't seen much in terms of negative impact over the long-term visions of people upgrading either sealer decks or paint shops.

When we look at the general trends in industrial, I think they're good. I think -- I've been surprised at how Europe has been as strong as it has been. China has returned. And North America, if anything, will be a little bit of a laggard. But that's coming on strong now too. So end market trends -- and I think you see that in CBF as well, where we're seeing heavy equipment in that pick up after many years of kind of a malaise. Bob, you want to add anything? Or...

**Robert M. Roche**

VP & CFO

**Answer:**

No. You covered it well.

**Operator**

And our next question comes from Garik Shmois with Loop Capital.

**Garik Simha Shmois**

Managing Director

**Question:**

Just with respect to CCM volumes, you cited record bookings, and that's clearly driving some of the strength here. But maybe you could flesh out what you're seeing maybe from a regional or end market standpoint? How is new construction versus reroofing? And any regions stand out in particular?

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Yes, I think the regions that still stand out -- being headquartered in Phoenix, one of the interesting things that we see is how strong building in

the southwest has been. And obviously in Texas, there's a lot of talk about the migration that occurs there. Florida, we see that surprisingly.

I think our business, though, pretty much everywhere has been pretty good. And one of the leading indicators we've always said for years has been when resi construction is good, nonresi tends to fall. When you're building houses and expanding suburbs and things like that, you tend to draw along shopping centers and places to eat, Walgreens, CVS, those kind of things. So I think across the U.S., it's been very good, and you can see that in the resi as well.

For new construction, it's been a contributor. Bob and I've talked for a while about how anything north of 0 probably really helps. And it has been, we think, low single-digit for new. So that's been really good to add to what we articulated in this presentation, and we have many times, around how strong we think the reroofing backlog and growth in that has been and will be over the next decade.

So it's kind of an interesting thing, Garik. But I mean really, if it's -- when I think about hitting on all cylinders, it's pretty much doing it right now.

**Garik Simha Shmois**

Managing Director

**Question:**

No, that's encouraging. Why don't we shift to the price-cost outlook? Is this - you reiterated it. Is this predicated on getting or needing additional price increases? Or do you think what you've secured so far this year should get you there, just given the visibility that you have on the cost side?

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Yes, and what I articulated about the cost side, I think is a key part of that. Obviously, we are anticipating that suppliers will get their capacity back online. And we'll see some modulation as we get into third quarter and then into the fourth quarter.

Obviously, if things -- anything substantial changes that, that throws it off. But given that, I think where we are from a price perspective, I think our team was very proactive and got ahead of this, and that's what's embodied in this flat call for the year.

**Garik Simha Shmois**

Managing Director

**Question:**

Great. And then just lastly, just wondering on the supply side for CCM. Just given how tight it is and recognizing that maybe some reliable manufacturers will be able to get their production in line later on this year, but just given how strong the market appears to be for you and how strong the market appears to be when looking out over the next several quarters or several years, assuming a recovery, do you think we're at an inflection point? You've been talking about this for several years. But do you think we're truly at an inflection point now for pricing [ initiatives ]?

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Well, I can't speak for the rest of the market. But I think given where we are on a variety of fronts, I mean first of all, the demand, the labor constraints, the productivity needs, you can get into ESG global. There are a lot of trends to just point to what we've been saying, which is this market is going to be a robust market, and people are going to place a premium on having a supplier that will deliver every time with the right product, the right place, but also a high-quality product that's innovative, takes labor hours off the roof. And our teams worked over the last few years in investing in our R&D center, in investing in training, investing in contractor education on application. Things like this leads us to believe that they're going to pay -- they will pay a premium for a company that delivers on their promises like that.

And so I think for us going forward, we've had this pricing resolve for a while now, many years. And yes I think our inflection point was 3 or 4 years ago. I think maybe the rest of the industry may get there. But the only thing I would say here is if people don't deliver on those things, if you're not providing innovation, if you're not providing superior customer service, if you're not providing products that take labor off the roof and things like that, then I don't think the pricing situation is the same. And you may not be at an inflection point. So...

**Operator**

And our next question comes from Joel Tiss with Bank of Montreal.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

Can you clarify, what does price discipline mean in CFT?

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Well, one of the things we know is that a large part over the years of our competitors' growth and profitability has come through price. And that idea that same kind of thing is in CCM, you create innovative products, you provide excellent service and then you price it appropriately and you don't, just because someone tells you -- a competitor has a good deal, you don't lower price. You stick to pricing your product to the value it provides.

So that's really what we mean there is that CFT now is delivering on time. They've got good customer service. We're working on some innovative products. As we said in the call, half of the volume in the first quarter was through new products. So I think we're starting to build that this is the way we want it to, which we could continue to get price; and b, disciplined in how we do it. We don't -- we're not getting into these price competition. We're selling the value.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

Okay. So that's smart, like establish yourself as the premium brand in there or a premium brand there.

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Yes, a premium brand.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

Can you talk a little bit about CIT? I'm sure you have a little more sort of insight just into what the customers are thinking. And I'm thinking more '22 and '23. I'm not really thinking about the second quarter. But anything you can help us with?

Because I know we went into kind of this time last year, there was a little too much inventory in the channel. Is that all cleaned out? And just give us maybe a little bit of a deeper look of how that's setting up for the next, like, 3 years?

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Yes. I think it's all, Joel -- I mean, depends on travel. We're seeing increased travel. At least we're seeing increased leisure travel certainly in the U.S. I know China travel has picked up too. I've looked at that. I think Europe is a little bit soft still.

I think what has to really start to come back, and we hopefully we're going to see that this summer and I think we feel it will come back, is the business traveler or the international traveler. And so that's what we're looking at. And then when we start seeing revenue improve at our major airlines, then we can start thinking about them adding routes back and adding planes back into service.

And I think that's happening right now. I mean the things that we hear are that there's a backlog in simulators where pilots have to get recertified in that. That seems to be everybody's starting to ramp up again. I think we're seeing more planes being brought out of backlog or those places where they've been stored. And then we have seen some increase in orders from airlines, certain airlines to aircraft manufacturers.

So all those things point to us to say that as we get into the back half of 2021, we should start to see things really improving. And then '22, '22 should bring us back to profitability in that and then marching forward from there.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

Okay. So it sounds like maybe just a little bit too early to have a clear view or whatever. And can you just talk quickly about acquisition valuation? And then I'll leave you guys alone. And thank you very much for the time.

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

No, no problem. I think the trend that's happened over the last couple of years, you know it well, that there's been increasing amounts of money in the market with a decreasing amount of assets. And so multiples continue to increase. I think we saw it with the Firestone deal. And I think went off somewhere around 12, which for construction products compared to 5 years ago is probably a couple of turns higher than it would have been.

So yes, as long as we have money out there and we have strategics and sponsors out there looking for assets to buy and deploy capital, and now we have SPACs and other things, demand is high for assets and multiples continue to rise.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

And can you do anything creative to get through Bob's screens? Like buying things for stock? Or not really?

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

I can't do it. Bob's not a creative guy, so I can't be creative because he won't respond to it, Joel. He's just meat-and-potatoes. So I -- we know we just have to make sure we're finding assets that have great synergies and good, strong organic growth programs embedded in their businesses. And I think when you look at where we are in the construction products or in CFT or or even in CIT and medical, there are businesses that have great products, that have good runways with strong organic growth. And luckily in those markets, we now -- even in medical, we've got bases that are big enough that we can make acquisitions and get synergies out of it. And so I think that's the only way we can make the model work as we have to have good, strong organic growth and leverage with those synergies.

**Operator**

[Operator Instructions] Next question comes from Kevin Hocevar with Northcoast Research.

**Kevin William Hocevar**

VP & Equity Research Analyst

**Question:**

Nice start to the year there. Wondered if -- Bob, I wanted to revisit, you mentioned CCM margins, you expect it to be flat in the second quarter compared to the prior year. And I guess if sales are expected to be up over 20% and price-cost just a small headwind, I guess why would that be the case? What would be the offsets there?

**Robert M. Roche**

VP & CFO

**Answer:**

Well, it's a little bit of the price-cost. Chris mentioned that we think the second quarter is going to be the toughest compare and then growing into the back half. So it's...

**Kevin William Hovevar**

VP & Equity Research Analyst

**Question:**

Okay. Okay. And in terms of the -- you guys mentioned metal roof. I think you had mentioned in the prepared remarks when you're talking about CCM that metal roofing in Europe did well. Wonder if you could just give a little bit more color there. And you didn't -- I don't think you mentioned polyurethanes. So curious what you're seeing out of each of those businesses within CCM.

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Well, we're really pleased with Europe and the new management team that came in a little bit while back. We're impressive leader in how things have really solidified. And we invested in expansion of Waltershausen. We're really pushing our new products, and that's going to continue to be a good story.

So I just think the story in Europe is just a new management team with a really exciting outlook, really get-it-done attitude. And [ Georg ], the gentleman we brought in, is very experienced in European construction products markets. He's run some big businesses, and I think he has great strategic direction. So that's fun to watch happen. We love that when people come in with great skill sets and can apply their craft at Carlisle.

Architectural metals is another great story. I mean both leaders of the businesses at Drexel and Petersen are doing a great job. I think Petersen had a record month, all-time record month in March. So that team is doing a great job. They're also doing an excellent job of getting supply and maintaining price. I think they had some very improved margins as we headed into March on a year-over-year basis and historically were improved as well. The Drexel team continues to do a great job as well there.

And then, polyurethanes is great. The only issue in polyurethane is really for us right now is that some of the materials are hard to come by across the industry, and everyone is kind of suffering on the MDI and polyol. And so we

probably can't get as much as we would like to have. And that's really the only thing I think that's constraining the growth in that market.

And that's a market where we had projected high single-digit growth out of polyurethanes. And we still think that growth is there. That product line continues to be more and more accepted and desired in homes for its insulating properties and vapor barrier properties. And it's just a very high-performing insulation.

So there are 3 great segments for CCM. There were 3 great additions. And we like what the management teams are doing and how they're creating value. Bob, do you want to add anything to that?

**Robert M. Roche**

VP & CFO

**Answer:**

No.

**Kevin William Hovevar**

VP & Equity Research Analyst

**Question:**

And last one for me. Out of curiosity, it seems like you guys have always focused on GAAP EPS and GAAP EBIT. You've always provided the adjusting items, but it always seems like the focus was the GAAP at the end of the day. But it seemed like in this quarter, the focus seem to shift to adjusted EPS and adjusted EBITDA, I guess, as opposed to GAAP EBIT.

So curious -- just curious what the reason that you're shifting the focus there. And are you also shifting it internally in terms of bonuses or anything in terms of how you're compensating your employees more tied to adjusted EBITDA as opposed to GAAP EBIT? Yes, just curious the shift there.

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

So I don't really think there's been much of a change. There's certainly nothing with respect to compensation or anything that's happening at Carlisle. We're a GAAP company, and our most important metric is cash flow, obviously, and then return on invested capital. So we're still the same as we were.

The move to add information, and that's really what we did is we added



information, we obviously have to report GAAP. So anything we're doing is adding it, was really driven by the investment community and our shareholders and the desire for more information quicker and trying to take some work off of their plate. I mean we obviously would send out GAAP and say to our -- to investors and others, you have it, you can make the adjustments. But I think for us to do that work in advance to try to just make it a little bit easier to digest the information in more rapid time frame, and to take some burden off the investment community and the analysts that are doing the work on it was really the reason to do it. And hopefully that in turn will produce a better understanding of the Carlisle story and what's driving value here.

So that's all it was. It's not going to drive any changes in our performance and how we work and how we measure our capital investment or acquisitions. Just an effort to provide more granularity to the investment community.

**Operator**

There are no further questions at this time. I'll turn the conference back over to Chris for closing remarks.

**D. Christian Koch**

Chairman, President & CEO

**Answer:**

Thanks, Kavita. This concludes our first quarter 2021 earnings call. I want to thank everybody for your participation, and we look forward to speaking with you at the next release call. Thanks, and stay safe.

**Operator**

And that does conclude today's call. Thank you for your participation. You may now disconnect.

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